Defining the Program to Implement the DON FIP

3 November 2004
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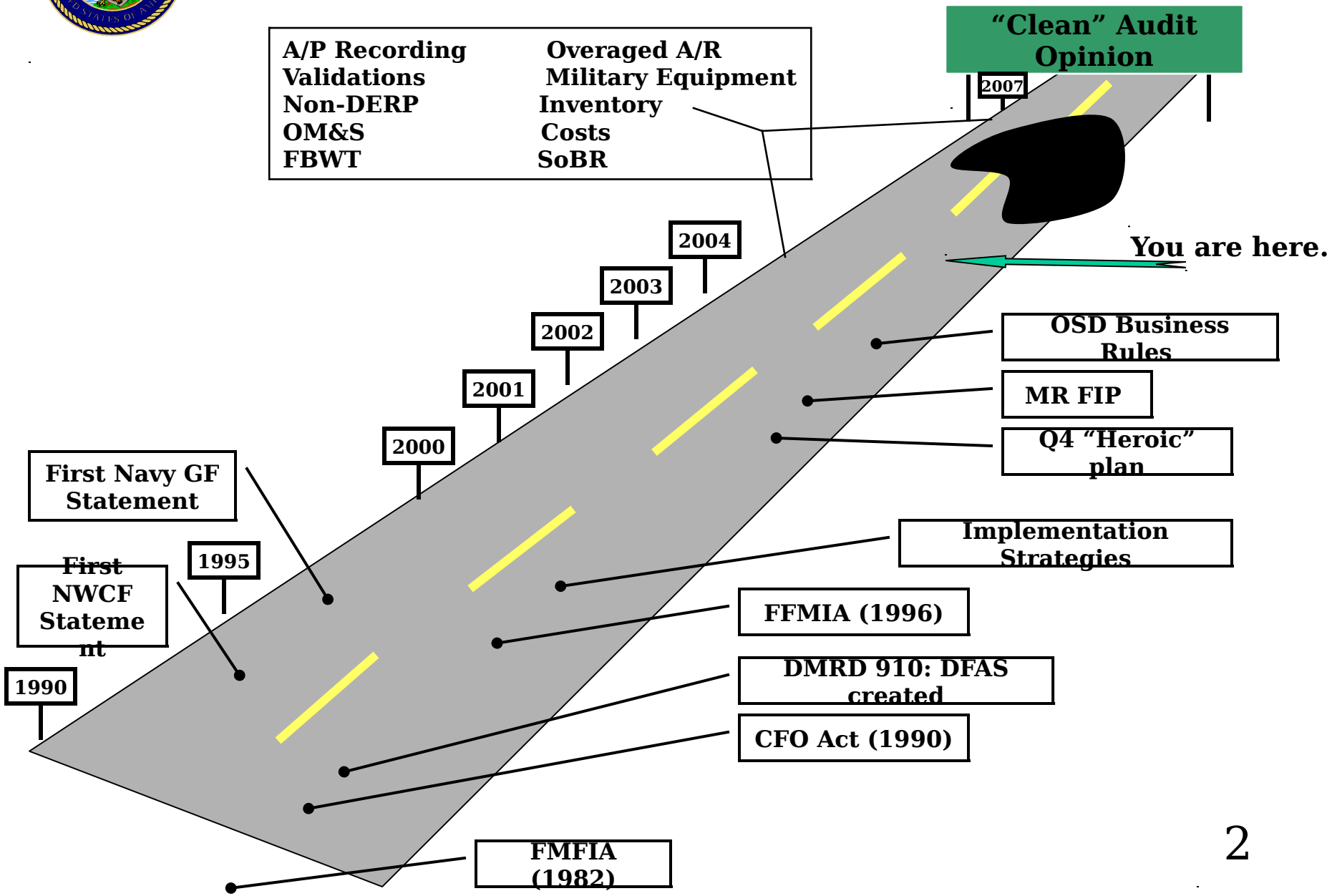
FMO DON FIP Team Lead

The Road to Auditable Financial Statements



Questions

* What is the DON FIP Initiative?
* Why is this important to the DON?
* What is the strategy and approach?
* What are the roles and responsibilities under the program?
* How will the DON FIP be managed and communicated?
* Will funding be made available?
* What are the FY05 focus areas?
* How will the DON FIP benefit my organization?

What is the DON FIP?

* **Initiative to take the necessary actions and steps to position the Department of the Navy to obtain a "clean" audit opinion on the Department Financial Statements.**
  - **Produce accurate, timely, and reliable information for decision-making**
* **Initiative** for Management (Command Level) to take ownership and accountability for its financial numbers, processes, procedures, and controls through a cycle of continual reevaluation and improvement.
* **Initiative** to implement a Strategic Plan that addresses by financial statement line item:
  - Deficiencies – issues/problems that impair data integrity
  - Corrective actions – specific actions to correct the deficiency
  - Resources – dollars for labor or systems
  - Dates – associated with corrective actions and completion
  - Responsible organizations – assigned the corrective action

What is the DON FIP?

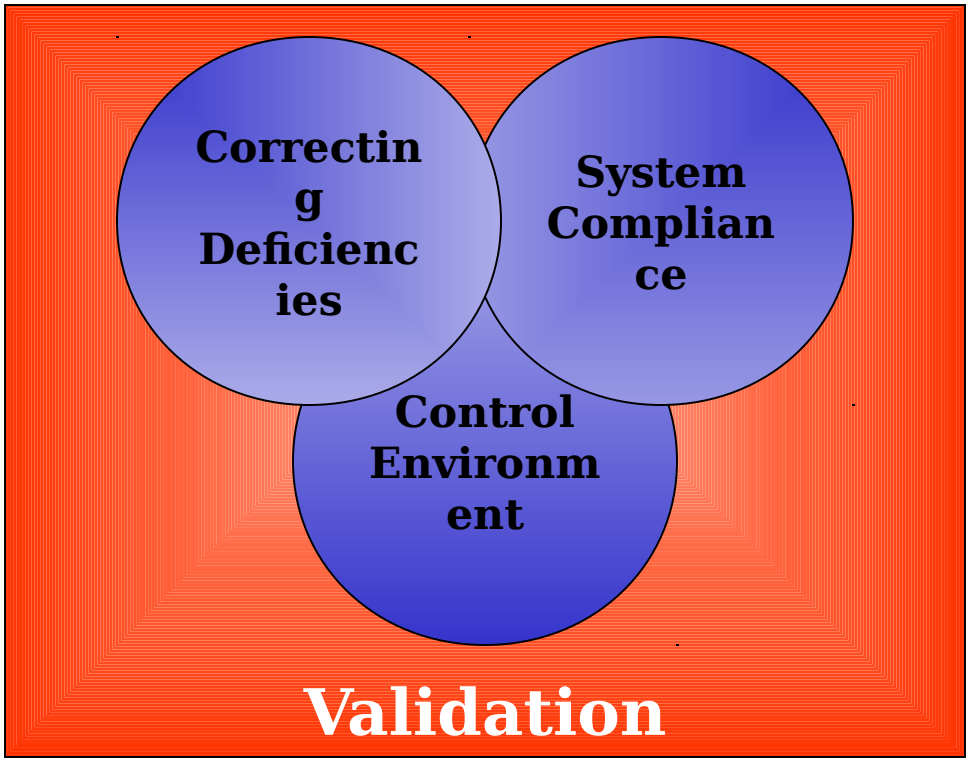
* **Initiative** to implement a strategy to validate audit readiness
* **Initiative** to apply resources and program support to implement the Financial Improvement Plan
* **Initiative** for implementation of a Business Model DON-wide with:
  - FM community leadership
  - Audit Steering Committee Guidance
  - Non-FM Community Command Support
  - DON and supporting organizations participating at all organizational levels in actively building the auditability from the ground up

Goal: Obtain an unqualified (clean) audit opinion on the DON Financial Statements by FY 2007.

Why is this important?

* Compliance with the Law:
  - Chief Financial Officer's (CFO) Act of 1990
  - Government Management Reform Act (GMRA) of 1994
  - Federal Financial Manager's Integrity Act (FFMIA) of 1996
  - National Defense Authorization Act of FY 2002, Section 1008
* Decision-Making Support – Accurate, timely and reliable data is essential to support effective decision-making.
  - ***Reliable information = informed and better decisions***
* Public Confidence in Reporting – Obtaining a "clean" opinion on the our Financial Statements (AFS) will provide the 'stamp' of reliability and creditability to the Department, Congress and Taxpayers

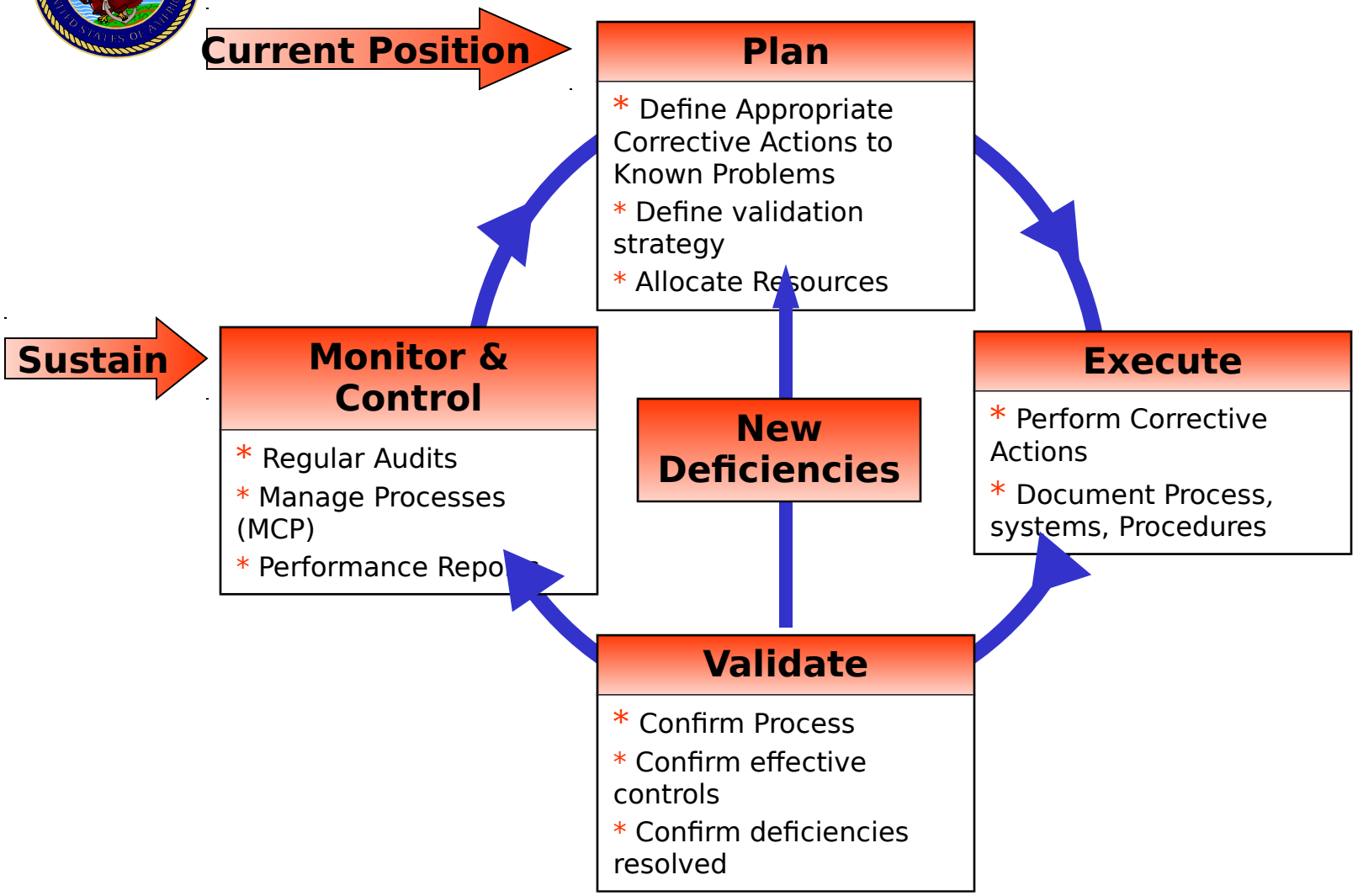
Getting Ready for Audit: Validation Centric



Our Validation Centric Approach will:

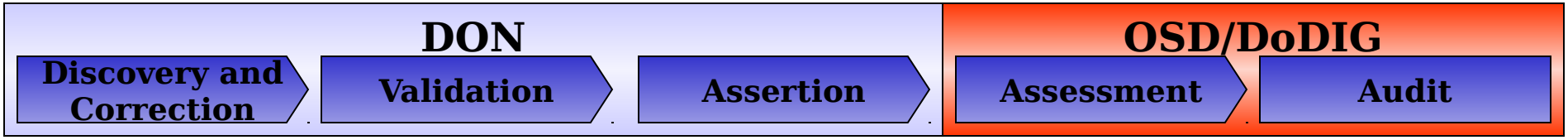
* Require DON Managers to understand the transaction flow from initiation of the business event through the accounting life cycle and presentation of current status on the statements
* Require DON Managers to understand and evaluate their FM control environment and its impact on data accuracy and completeness
* Enable DON to identify new deficiencies and impediments to auditability and a clean audit

DON FIP Business Model



Management (Command Level) takes ownership and accountability for its financial numbers, processes, procedures, and controls through a cycle of continual reevaluation and improvement.

The DON Assertion Process

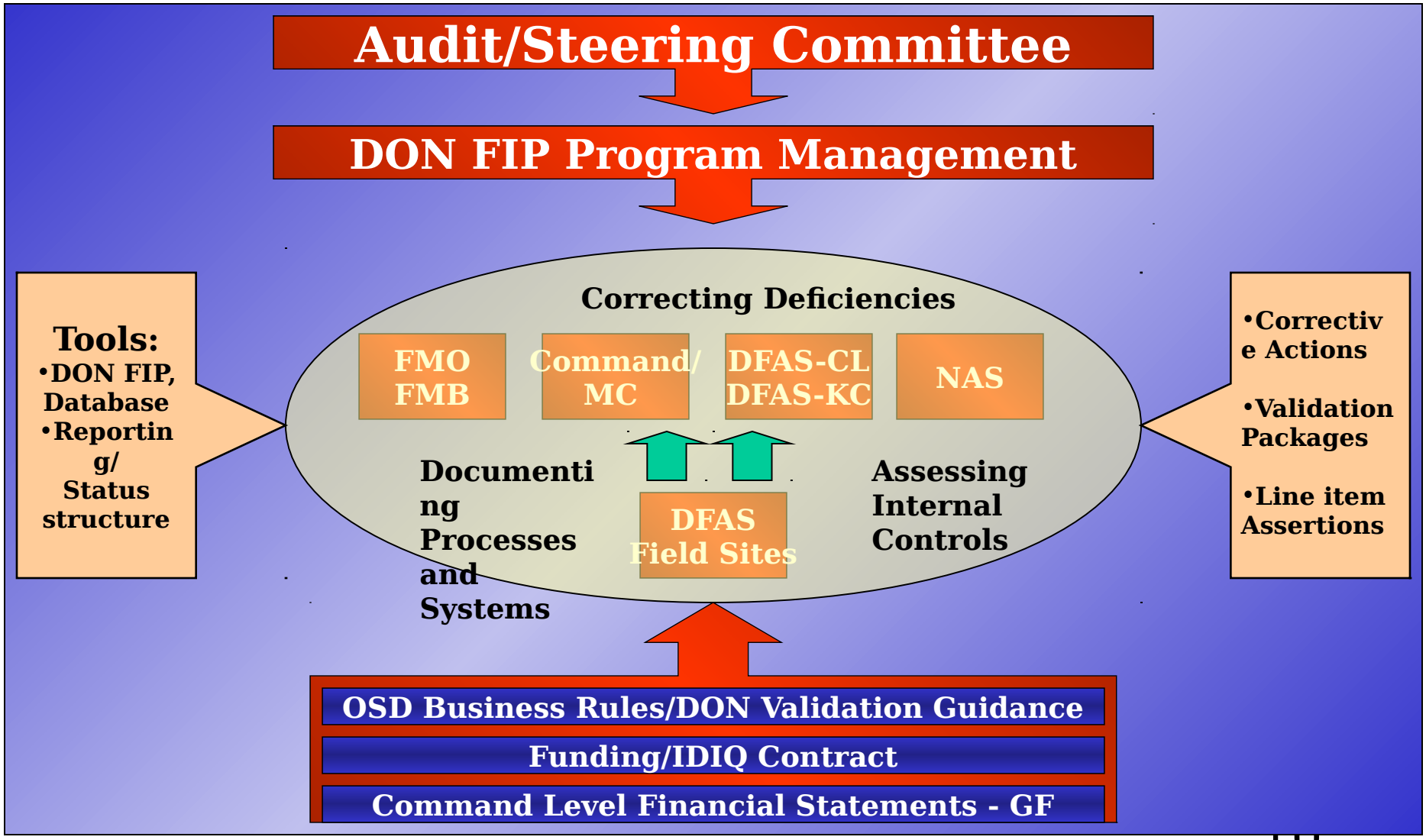


DON "Validation"

Prepare	Document	Assess	Validate	Assert
• Define priorities • Plan & Scope • Compile & Review recent audit reports • Compile applicable SGL/USSGL accounts & definitions • Develop systems strategy • Review rules & regulations • Compile DDRS drill downs • Develop internal control questionnaires • Develop training and guidance	• Identify POCs • Document major business events • Map process flows • Map organization structure • Complete internal control questionnaires • Define & map systems • Gather systems certifications • Conduct interviews • Substantiate balances (?) • Gather supporting documentation	• Identify risk & control measures • Document control procedures • Evaluate control procedures (process and systems) • Perform limited, non-sampling substantive testing	• Confirm & document resolved material deficiencies • Document the effectiveness of the control environment, mitigate ineffective controls • Perform limited, non-sampling substantive testing	• Inform IG/ESG of the DON's intent to Assert • Complete DoD IG Checklist • Compile assertion package • Obtain ASN (FM&C) Signature and assert
• FMO	• FMO • Commands/MC • DFAS	• FMO • Commands/MC • DFAS	• FMO • NAVAUDSVC	• FMO

DON Assertion Process

DON FIP Program Entity Structure



DON FIP Roles and Responsibilities

Audit/Steering Committee

- Executive-level sponsorship and oversight for the DON FIP
- Provide a forum to discuss and resolve Department financial management issues
- Provide focus for necessary corrective actions and improving business processes

Program Management Team

- Facilitate and manage activities to ensure auditability
- Provide tools, guidance, training, and direction for execution
- Organize and task special working groups to address issues
- Monitor and report on progress
- Distribute and manage funding

Major Commands/Marine Corps

- Take ownership of financial information and processes
- Document business processes, systems, and internal controls
- Implement corrective actions that address material deficiencies

DFAS Field Sites

- Coordinate corrective actions with Commands
- Document processes and

FMO/FMB

- Secure DON FIP Funding
- Produce guidance
- Provide Leadership & Expertise

DFAS-CL/DFAS-

- Focus on FBWT, A/R, SBR, and SoF
- Implement SCRs
- Process documentation and

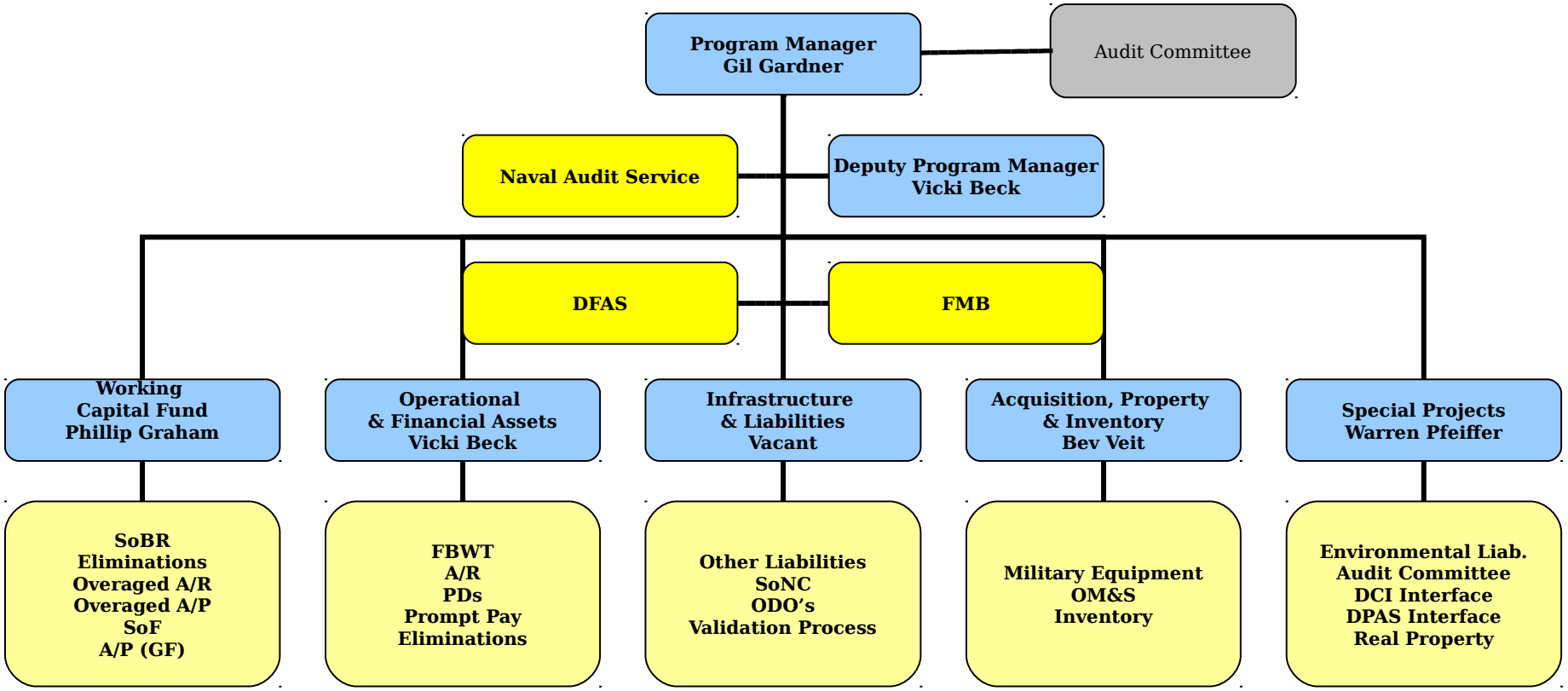
NAVAUDSVC

- Perform validation of selected line items

Managing the DON FIP

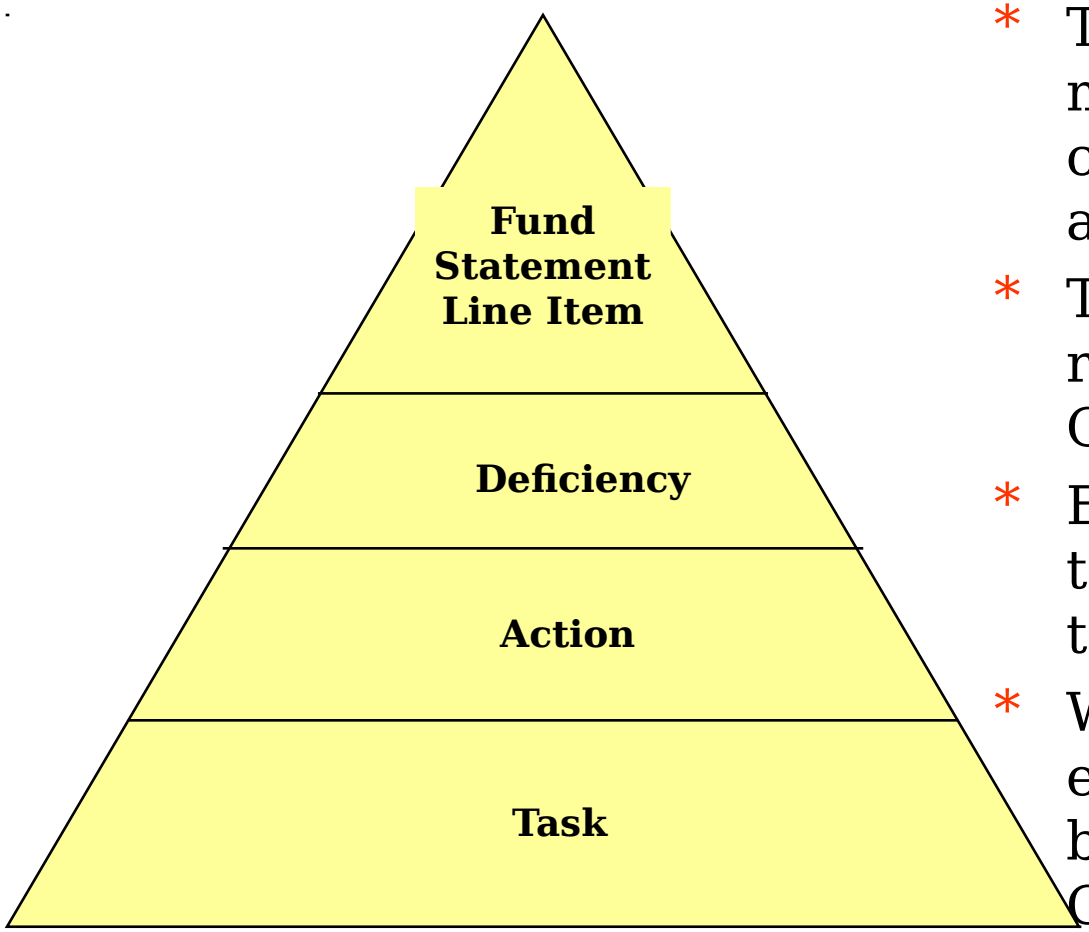
* Program Teams– providing dedicated implementation facilitation and subject matter expertise
* Data Management- Project Plan Format, OSD Web application
* Program Controls – monthly progress measurement and reporting, issues identification
  - Major Command-Level Financial Statements (GF) – Consolidated trial balances and Balance Sheet
  - Financial Resources, Contractor Resources
* Validation Package Compilation
  - IDIQ Contracting Vehicle
  - Training Program and Written Guidance
  - Automation Software
* Communication Channels
  - Q&A through centralized email (don_fip@fmo.com)
  - Web Site (http://www.fmo.navy.mil)

DON FIP Team



oviding Leadership, issuing guidance, coordinating activities: initiatives workshops and meetings to correcting subject area deficiencies

Data Management



* The FIP master plan is the management tool to track corrective activities, status and completion dates.
* The Plan is updated regularly and is submitted OUSD(C) monthly
* Each Command/DFAS has to update their portion of the Plan each month
* We are currently evaluating a web database, being developed by OUSD(C)

Monthly progress reports for your corrective actions and validations will include:

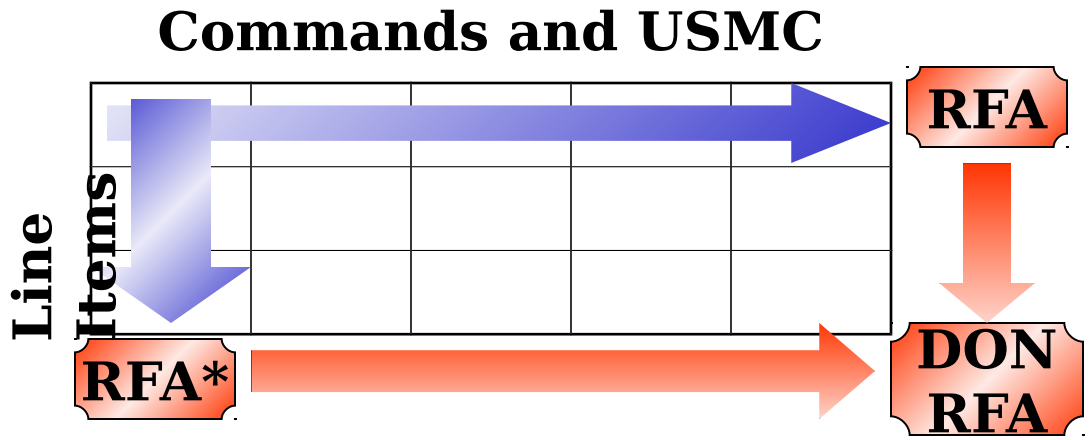
* Status of action items
* Status of validations
* Status of Funds
* Issues
* Plan Measurements

Examples:

* Plan Measures (Macro)
  - Measures that depict overall plan status and success
    - # of deficiencies identified (by fund type, FS, line item, org)
* Progress Measures (Micro)
  - Measures that objectively validate that a task has been completed
    - Develop Guidance (written guidance developed)
* Operational Measures (Standard Performance Measures)
  - Measures that demonstrate operational effectiveness and efficiency (OSD Metrics +)
    - $ value of AR > 180 days
    - $ value of Aged Accounts Receivable
* Activity/Major Claimant Level Proprietary Reports
  - Command Level Statements
  - Scorecard by Major Claimant

Validation Management

* Validation Package Compilation
  - Horizontal vs. Vertical Approach
  - IDIQ Contract
  - Training Program and Written Guidance
  - Automation Software
* Benefits of the Matrix Approach
  - Logical and balanced way to achieve success
  - Shifts accountability for data integrity and effective controls to the transaction initiators
  - Focuses efficiencies in DON-wide, consistent compliant processes, controls and systems
  - Enables logical prioritization and directed assistance of resources and expertise
  - Enables Program Management team to monitor and report on progress at a definitive and aggregate level



The attainment of the DON "clean" opinion can be viewed as the summation of its' "clean" parts.

*** RFA = Ready for**

The following are ways where you can get information and/or ask questions on the DON FIP:

* FMO primary points of contact
  - Mr. Gilbert Gardner (202-685-6727)
  - Ms. Vicki Beck (202-685-6721)
* Web site (http://www.fmo.navy.mil)
* Email address (don_fip@navy.mil)
* Conferences (15-17 February 2005, in San Diego)
* Training avenues
* Periodic Program Status Reporting

Funding Profile ~ FY 2005 - FY 2009

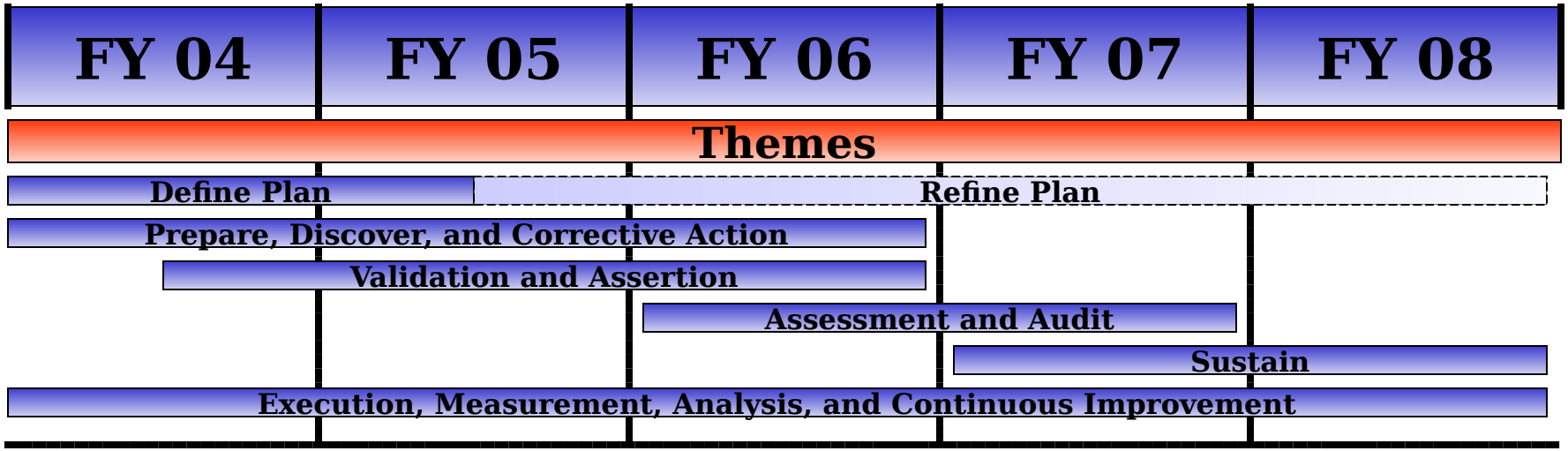
* DON FIP funding profile:

Implementation **Sustainment**

	Fiscal Year				
$ in Thousands	**2005**	**2006**	**2007**	**2008**	**2009**
O&M, Navy	$107,741	$45,799	$32,256	$41,156	$41,756
O&M, Marine Corps	15,732	2,425	1,648	1,648	1,648
O&M, Navy Res	3,272	2,038	1,598	1,598	1,598
Other Procure, Navy	1,000	0	0	0	0
RDT&E, Navy	9,055	2,038	1,598	1,598	1,598
Total	$136,800	$52,300	$37,100	$46,000	$46,600

* FY 05 – FY 09 accounted for in OSD Budget

FY 05 Focus Areas



FY 05 Focus Areas

* General Fund
  - FBWT
  - A/R
  - A/P Recording
  - General PP&E
  - Selected Validations
  - Non-DERP Environmental Liabilities
  - USMC
* NWCF
  - Validations except for Inventory

All said and done, how will this effort benefit your organization?

* You will have a better understanding of the business processes and their impact on the financial statements
* You will have knowledge that the data you and your organization's managers review is credible and reliable
* You will have more accurate information for better decision making
* You will be better prepared for auditors
* You will have participated in helping the DON deliver an unqualified opinion on its financial statements

Did we answer the questions?

* What is the DON FIP Initiative?
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